CHAPTER 4
Corporate Social Responsibility

Chapter Summary

This chapter examines the topic of Corporate Social Responsibility (CSR) where we change the internal perspective of the organization to an external one and look at how an organization should interact with its stakeholders in an ethical manner. This chapter begins with a definition of CSR and discusses the different ethical perspectives. In addition, this chapter covers and explains the five major trends behind the CSR phenomenon. Further, the triple bottom line and the three distinct types of CSR are given explanation.

Learning Objectives

After studying this chapter, the student should be able to:

1. Describe and explain corporate social responsibility (CSR).
2. Distinguish between instrumental and social contract approached to corporate management.
3. Summarize the five driving forces behind CSR.
4. Distinguish between the three types of CSR.
5. Understand the challenges of a CSR initiative.
6. Apply the key components of a successful CSR initiative.

Extended Chapter Outline

Objective 1: Describe and explain corporate social responsibility (CSR)

1.1. The opening Frontline Focus case shows how a new employee faces an ethical decision of restocking only the store brand name products rather than the brand name products because of higher profit margins.

1.2. Corporate Social Responsibility can be defined as the actions of an organization that are targeted toward achieving a social benefit over and above maximizing profits for its shareholders and meeting all its legal obligations.
1.2.1. Definition assumes that the corporation is operating in a competitive environment and that the managers of the corporation are committed to an aggressive growth strategy while complying with all federal, state, and local legal obligations.

1.3. Corporate Citizenship is an alternative term for corporate social responsibility, implying that the organization is a responsible citizen in meeting all its obligations.

1.4. Corporate Conscience is an alternative term for corporate social responsibility, implying that the organization is run with an awareness of its obligations to society.
Objective 2: **Distinguish between instrumental and social contract approaches to corporate management**

2.1 **Instrumental approach** is the perspective that the only obligation of a corporation is to maximize profits for its shareholders in providing goods and services that meet the needs of its customers.

2.1.1 Most famous advocate of this “classic” model is the Nobel Prize-winning economist Milton Friedman.

2.1.2 Friedman argues it would be unethical for a corporation to do anything other than deliver the profits for which its investors have entrusted it with their funds in the purchase of shares in the corporation.

2.2 Friedman also argues that, as an employee of the corporation, the manager has an ethical obligation to fulfill his role in delivering on the expectations of his employers.

**Social contract approach** is the perspective that a corporation has an obligation to society over and above the expectations of its shareholders.

2.2.1 Prior years, the primary focus of the social contract was an economic one, assuming that continued economic growth would bring an equal advancement in the quality of life.

2.5.1 The modern social contract approach argues that since the corporation depends on society for its existence and continued growth, there is an obligation for the corporation to meet the demands of that society rather than just the demands of a targeted group of customers.

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Objective 3: **Summarize the five driving forces behind CSR.**

3.1 Joseph Keefe of NewCircle Communications assert that there are five major trends behind the CSR phenomenon:

3.1.1 Transparency
3.1.2 Knowledge
3.1.3 Sustainability
3.1.4 Globalization
3.1.5 The failure of the Public Sector

3.2 Many CSR initiatives do no generate immediate financial gains to the organization.

3.3 Corporations that choose to experiment with CSR initiatives run the risk of creating adverse results and ending up worse off than when they started.

3.3.1 Employees feel that they are working for an insincere, uncaring organization.

3.3.2 The public sees little more than a token of action concerned with publicity rather than community.

3.3.3 The organization does not perceive much benefit from CSR and so sees no need to develop the concept.

3.4 Many organizations have adapted their annual reports to reflect a triple bottom-line approach

3.4.1 Triple bottom-line approach provides social and environmental updates alongside their primary bottom-line financial performance.
Objective 4: Distinguish between the three types of CSR.

4.1 Three distinct types of CSR.

4.1.1. **Ethical CSR** represents the purest or most legitimate type of CSR in which organizations pursue a clearly defined sense of social conscience in managing their financial responsibilities to shareholders, their legal responsibilities to their local community and society as a whole, and their ethical responsibilities to do the right thing for all their stakeholders.

4.1.2. **Altruistic CSR** takes a philanthropic approach by underwriting specific initiatives to give back to the company’s local community or to designated national or international programs.

4.1.2.1 Critics argue this type of CSR is immoral since it represents a violation of shareholder rights if they are not given the opportunity to vote on the initiatives launched in the name of corporate social responsibility.

4.1.2.2 Relative legitimacy of altruistic CSR is based on the argument that the philanthropic initiatives are authorized without concern for the corporation’s overall profitability.

4.1.3. **Strategic CSR** is a type of philanthropic activity which targets programs that will generate the most positive publicity or goodwill for the organization.

4.1.3.1 By supporting these programs, companies can claim to be doing the right thing and they also can meet their fiduciary obligations to their shareholders.

4.1.3.2 Critics can argue that strategic CSR is ethically commendable because these initiatives benefit stakeholders while meeting fiduciary obligations to the company’s shareholders.

Objective 5: Understand the challenges of a CSR initiative

5.1 If an organization commits to CSR initiatives, then they must be real commitments rather than short-term experiments.

5.2 Majority of customers will expect you to deliver on your commitment and to provide progress reports on those initiatives that publicized so widely.

5.3 “Doing well by doing good” will only get you so far.

Objective 6: Apply the key components of a successful CSR initiative

6.1 It is unfair to accuse companies with CSR initiatives of abandoning their moral responsibilities to their stakeholders.

6.2 Customers will not settle for second-rate service or product quality just because a charitable cause is involved.

6.3 Products or services must meet and ideally exceed the expectations of your customers, and over the long-term, the needs of your stakeholders should be well taken care of.

6.4 The financial incentive is now very real and has the potential to significantly impact an organization’s financial future.

6.5 The question of adoption of some form of social responsibility plan for a corporation should no longer be if but when.
**Key Terms**

**Altruistic CSR:** Organizations take a philanthropic approach by underwriting specific initiatives to give back to the company’s local community or to designated national or international programs.

**Corporate Citizenship:** An alternative term for corporate social responsibility, implying that the organization is a responsible citizen in meeting all its obligations.

**Corporate Conscience:** An alternative term for corporate social responsibility, implying that the organization is a responsible citizen in meeting all its obligations.

**Corporate Social Responsibility:** The actions of an organization that are targeted toward achieving a social benefit over and above maximizing profits for its shareholders and meeting all its legal obligations.

**Ethical CSR:** Organizations pursue a clearly defined sense of social conscience in managing their financial responsibilities to shareholders, their legal responsibilities to their local community and society as a whole, and their ethical responsibilities to “do the right thing” for all their stakeholders.

**Instrumental Approach:** The perspective that the only obligations of a corporation is to maximize profits for its shareholders in providing goods and services that meet the needs of its customers.

**Social Contract Approach:** The perspective that a corporation has an obligation to society over and above the expectations of its shareholders.

**Strategic CSR:** Philanthropic activities are targeted toward programs that will generate the most positive publicity or goodwill for the organization.